



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

Office of the Auditor General

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September 21, 1979

Letter Report 907

Honorable Richard Robinson
Chairman, and Members of the
Joint Legislative Audit Committee
State Capitol, Room 4158
Sacramento, California 95814

Dear Mr. Chairman and Members:

In response to a resolution of the Joint Legislative Audit Committee, we have reviewed specific allegations levied against the Department of Housing and Community Development (HCD). These anonymous allegations identified problems in the areas of personnel policies and procedures, travel expenditures, and contract administration.

Reviews by the Department of Finance and the State Personnel Board (SPB) found that some of the problems stated do exist. Although the department is undertaking measures to correct administrative deficiencies, our investigation found that these same problems are continuing. Considering these problem areas and the increasing budget of HCD, we recommend that HCD advise the Legislature by November 1, 1979 of its progress in eliminating specific deficiencies in travel and contract administration.

To clarify the issues surrounding the allegations and to support our recommendation, we have included both a background section and segments addressing the areas of personnel practices and policies, travel claims, and contract administration.

Honorable Richard Robinson
Chairman, and Members of the
Joint Legislative Audit Committee
Page Two
September 21, 1979

Background

The Department of Housing and Community Development is an organizational unit within the Business and Transportation Agency. The department, along with various state and local agencies, is responsible for (1) protecting the public from inadequate construction, manufacture, repair, or rehabilitation of buildings, particularly dwelling units; (2) promoting safe and sanitary housing in livable communities; and (3) identifying and defining housing problems and devising appropriate solutions.

The department administers these objectives through four programs: (1) Codes and Standards, (2) Community Affairs, (3) Migrant Services, and (4) Research and Policy Development. These programs are primarily funded by state and federal funds. For the past two years, the department's budget has increased substantially--from \$10.6 million for fiscal year 1977-78 to an estimated \$24.5 million for fiscal year 1979-80. In addition, there is proposed legislation to enact a state program to stimulate and assist in the production of housing for both low-income renters and potential homeowners. This program could augment HCD's budget by \$100 million.

Scope and Methodology

We limited our review to the recent anonymous allegations in these areas: personnel practices and policies, travel claims, and contract administration. In conducting our study, we tried not to duplicate prior work performed by the Department of Finance and the State Personnel Board. We interviewed HCD personnel, reviewed HCD contract files and travel claims, and examined recent internal reports concerning these allegations by the Department of Finance and the State Personnel Board.

Personnel Practices and Policies

The State Personnel Board reviewed specific allegations regarding HCD's improper use of contracting and disregard of the civil service system. According to SPB's review, most of the allegations were unfounded. In general, the board found that (1) the personal service contracts were properly justified and approved, (2) the use of Temporary Authorized (TAU) positions was proper, (3) nepotism did not occur in the hiring of two brothers, and (4) specific personnel practices were proper.

Honorable Richard Robinson
Chairman, and Members of the
Joint Legislative Audit Committee
Page Three
September 21, 1979

Although SPB found that HCD's personnel policies were generally sound, it cited two allegations of mismanagement which were based on fact. The problem labeled as nepotism was rather an instance of HCD working one brother over the other as a supervisor. This situation had been corrected prior to our review.

The other allegation, which corresponds to the fourth item above, concerned the exempt position of Chief, Division of Codes and Standards. The SPB review suggested that this individual had potentially abused travel policies because of his refusal to relocate to the administrative headquarters of the division.

The individual was hired as Chief of Codes and Standards in March 1977. Since the time of his appointment, he has maintained offices in southern California even though the administrative headquarters of the Division of Codes and Standards is in Sacramento. After his appointment he refused to move to Sacramento; instead, he made frequent trips there. For such travel, he received a per diem allowance. In November of 1978, the department assigned him to its Emergency Housing Program located in Malibu where he worked until May 1979. Then he was assigned to work on special projects for the Director of HCD.

Since his appointment in March 1977, he has maintained the position and the salary of Chief of Codes and Standards, although the Assistant Division Chief has been acting as Chief since November of 1978. In March 1979, HCD submitted a letter to the Governor's Office requesting that the Assistant Division Chief be appointed Chief and that the Chief be appointed Assistant Division Chief and be headquartered in Santa Ana. No action has yet been taken on this request.

The SPB report included this comment about the location of the Chief's offices:

It appears that the department officially headquartered [the Chief, Division of Codes and Standards] in Santa Ana because of personal preference as opposed to job requirements....

Honorable Richard Robinson
Chairman, and Members of the
Joint Legislative Audit Committee
Page Four
September 21, 1979

Additionally, SPB recommended further investigation into the appropriateness of the Chief's refusal to move to Sacramento and any potential travel claim abuse. No further investigation regarding the Chief's position has yet occurred.

Our follow-up also disclosed that the independence of SPB's review was possibly impaired because the SPB employee who initially approved the HCD contracts and personnel actions audited those same actions. In addition, the review was based solely upon discussions with HCD management and excluded other members of the organization who may have provided valuable information.

Travel Expenditures

The Department of Finance identified various problem areas in HCD's travel policies and expenditures. These problems include liberal interpretations and, in some cases, violations of the State Administrative Manual (SAM) and the Board of Control rules regarding travel advances, use of private cars and rental cars, air transportation, per diem and taxis. These are some specific examples of the deficiencies reported:

- Three instances of two different employees who have claimed the same travel twice and have received double reimbursements;
- Some employees have claimed low monthly travel expenses while carrying excessive travel advances. Two of these employees had outstanding advances of over \$2,500;
- Personnel have not adequately controlled the issuance and payment of airline tickets.

The Department of Finance recommended that HCD develop and adopt a travel policy that clearly expresses management's policies for travel. They also recommended specific administrative procedures be established to correct current deficiencies.

Honorable Richard Robinson
Chairman, and Members of the
Joint Legislative Audit Committee
Page Five
September 21, 1979

Our review focused on what action HCD has taken to correct the problems identified by Finance and on what problems still exist. We found that HCD is now establishing travel guidelines which will be part of the department's Administrative Manual. These guidelines are scheduled to be completed September 18, 1979. In the interim, the Director of HCD has required that all division chiefs personally review and approve all travel expense claims. No claims are to be processed by the Accounting Office unless they have the proper authorization.

Despite the Director's requirement, our review of travel claims for June and July found that not all of those being processed have been approved by the division chiefs. The clerk who handles the claims was also unaware that they are not to be processed without proper authorization.

We found that many of the same problems identified by Finance still existed. For example, some employees are not submitting receipts for airline tickets and are making liberal allowances for per diem meals. Overall, the excessive travel advances outstanding have been reduced substantially. One employee, however, has received over \$1,400 during a six-month period and has submitted only one travel claim for \$300, thus leaving a balance of \$1,100 outstanding.

After completing our field work, we received from HCD travel directives designed to provide interim travel policy. These directives, which we received on August 23, 1979, will remain in effect until the travel guidelines are issued.

Contract Administration

The Department of Finance recently reviewed contract policies and procedures at HCD. In an internal report, Finance analysts cited that HCD had not fully complied with the State Administrative Manual. Also, they identified these deficiencies:

- No documentation to support contracts entered into without securing competitive bids;
- Final payment of a contract was approved when services had not been completed;
- No contract manual outlining established contractual procedures;

Honorable Richard Robinson
Chairman, and Members of the
Joint Legislative Audit Committee
Page Six
September 21, 1979

- No individual responsible for ensuring all administrative requirements within the contracting process have been completed.

We found that problems identified by the Department of Finance in HCD's contract administration still exist. Contract files are missing documents such as progress reports, contractor evaluations, justifications for the selection of contractors, and statements showing compliance with competitive bid provisions of SAM. In addition, we found that HCD does not record total contract volume and dollar value. As a result, there is a limited basis for measuring contract workload and staffing needs for contract support.

HCD is currently acting to alleviate these problems by preparing a contract procedural manual and a request for a contract officer's position.

Respectfully submitted,



THOMAS W. HAYES
Auditor General

Staff: Karl W. Dolk, CPA
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TWH:KWD:ls

Attachment:

Response to the Auditor General's Report

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

921 - 10th Street
Sacramento, CA 95814
(916) 445-4775



September 19, 1979

Mr. Thomas W. Hayes
State Auditor General
925 L Street
Sacramento, CA 95814

Dear Tom:

Thank you for the opportunity to respond to your draft report on the Department of Housing and Community Development. It is our continuing policy that any imperfections in the administration of the Department of Housing and Community Development are entirely unacceptable. There can be no excuses for any of the flaws you have uncovered, but I do want to voice two general concerns:

First, in dealing with hundreds of employees and thousands of transactions, there is bound to be some honest human error, and some discrepancies due to the advantage of hindsight regarding certain on-the-spot "judgment calls" made by the employees of the department. The audit does find instances of both, but I think it important to underscore that it does not find instances of bad faith.

Second, as we attempt to reduce human error in the department to as close to zero as possible, we continue to commit additional personnel and computer time to monitor and check increasing numbers of transactions. In doing this, there is real additional cost to the taxpayer. This cost must be held to strict and logical limits or the taxpayer will be the loser. Eliminating the last possible chance for human error may cost many times more than the error itself.

In addition, we have two specific comments:

1. The audit reports (page 3) that "no action has yet been taken" on the department's request that the Assistant Chief of Codes and Standards be made permanent chief of the division. Since the audit, this action has been approved and finalized.
2. The audit reports (page 4) three instances of double reimbursements for out-of-pocket monies spent by two employees on official state business. In each case, the error has been rectified and the state has been reimbursed in full for the excess payments.

We respect the time, effort, and even-handedness with which this review has been conducted. As I noted earlier, the department is moving expeditiously to rectify all shortcomings and to preclude reoccurrences.

Sincerely,

A handwritten signature in dark ink, appearing to read 'I. Donald Turner', with a long horizontal flourish extending to the right.

I. Donald Turner
Director